

PUBLIC EMPLOYEES RETIREMENT BOARD
Employee Investment Advisory Council
100 North Park
Helena MT 59601
July 9th, 2008

Kathy Samson; Council Chair with the following in attendance, called the meeting to order:

Council Members:

Rande Muffick, Board of Investments Representative
Mary Spaulding, State Employee Representative
James Helgeson, Local Government Employee Representative
Lisa Smith, Local Government Employee Representative
Jim Penner, Retired Public Employee Representative
Tom Schneider, Labor Organization Representative
Tom Bilodeau, Labor Organization Representative
Paula Stoll, State Employee Representative
Pam Fleisner, School District Employee Representative

Others in attendance are as follows:

MPERA staff: Melanie Symons and Roxanne Minnehan
Board Representatives: Terry Smith, Ray Peck and John Nielson
Great West Retirement Representatives: Linda Ulrich and Perry Christie

Not in attendance:

Ed Dawes, State Employee Representative
Ron Alles, Local Government Employee Representative

Housekeeping Items:

Minutes were presented for approval:

Q & A sheet provided with the minutes.

Motion to accept: Tom Schneider

Second: Tom Bilodeau

EIAC: Motion passed unanimously.

Public Comment: None

Meeting schedule confusion:

The Board room must be booked in advance, this means meeting times will sent through Outlook reminder will be different than the actual meeting times; generally Outlook will be 15 minutes earlier than the meeting. Actual meeting times are on the agenda sheet in the EIAC meeting packet materials.

Great West Plan Review:

Power Point presentations were given by Linda Ulrich. These presentations discussed Great West's Plan review for the 401(a) plan and the 457 plan as of December 31, 2007.

Questions regarding the Average Account:

1. The 457 plan average contribution per participant is about \$3400.00 per year; about 31% of State employees participate.
2. The 401(a) plan average contribution amount is \$3600.00
3. These amounts include the employer contribution portion also.
4. Are people investing enough?
5. How do we get the message out to participants that they need to increase their contributions?
6. Do people really understand all of their options when they leave state employment, as far as roll-over, full-withdrawal, partial distribution, periodic payments, etc...?

Comments: EIAC would like to see a break down of the average wage for participants and would also like to see how many 401(a) participants are also investing in the 457 plan.

Great West Strategic objective:

Great West currently uses individual appointments all around the state to enhance participants' knowledge; they also do group meetings and follows the MPERA New Hire (new PERS members)

workshops. Great West has developed a number of interactive Web tools for participants who can't catch a meeting.

All defined contribution plans break down into four components:

1. Participation
2. Asset allocation
3. Participant education, general education and overall education
4. Retiree outreach

Great West is trying to increase the number of participating employees by 3%. Great West wants to increase net new people by 150 participants. A few other states contribute to a 457 type plan, such as Indiana and Virginia. Louisiana has some agencies that participate, particularly their law enforcement agencies.

State of Montana 457 vs. private sector 401k employer match:

Main reason why the private sector seems to be out ahead of the government sector is because they have replaced or froze their DB plans and then took steps to put them in the position to have to provide some sort of retirement plan to their employees. They accomplished this by establishing some sort of 401k plan, and then having a pretty generous match for that plan. An private sector employee who was already in a DB plan, prior to it being frozen to new employees, may have a small employer match in their 401k, whereas new employees who don't have a DB plan but only a 401k plan may have a much higher match by the employer. Employers are now looking at new ways to increase mandatory savings rates. Participants in a DB plan tend to assume that because they are in a DB plan they will be able to retire comfortably without further savings.

GW Summary:

1. To increase the participant visits, getting the help and support needed from employers.
2. Increase in workshops.
3. Flyers, specific to non-contributing employees.
4. Link to the Great West website from the MPERA web site.
5. More joint presentations between MPERA and Great West. (this is proving difficult as the employers do not want their employees to be away from work for a longer presentation, and may be are uncooperative)
6. Flyers, specific to participants who need to increase their investment amounts.
7. Web site pop-ups that are based on their age.
8. Get more information out to participants that are age 50 and up.
9. Communicate the web education and learning tools that are available.

10. Help participants achieve a greater diversification with their investment options - target the participants that are only utilizing one investment option.
11. Encourage participants to perform an annual review
12. Help participants understand dollar cost rebalancing and averaging
13. Participant education in 2008 had about 1300 people, about 11%, attended; need to see more participation.
14. Retiree and beneficiary outreach.
15. Encourage partial withdrawals, instead of full withdrawals.

Comments:

1. Men or women that have been with the state for long periods of time are a good source of retiree information and their knowledge should be utilized whenever possible.
2. It would also be helpful to target employees at 5 years of employment, they are fully vested at that point therefore it would be a good opportunity to talk to them about their retirement options as they may be more attuned to the prospect of change and looking closer at their retirement options at that time.
3. It is important that changes in employee information start at the place of employment and the Department "Heads" should be encouraged to endorse their employee education. The benefit estimator will be available shortly out on the web for participant/employee use. That would be a useful place for a link to "other information" such as what a person can expect to get out of their MPERA benefit and then have links to other options, such as Deferred Comp.
4. Younger State employees would be easier to reach using computer access and/or email updates on deferred comp issues, education, etc...
5. Possible "initial" employer contributions to the 457 plan for employees may help to increase employee participation.

Default Investment Options:

1. Managed accounts are computer programs that participants log onto and enter their own individual information, which will help determine some individual goals and/or risk tolerance for investing and savings. Based on the information the program has received and the investment options available, the program will then determine an asset allocation that may be right for that participant. Managed accounts have already been determined acceptable by the Department of Labor as a qualified Default Investment Options.
2. The current default in the 457 deferral compensation plan, the stable value fund, does not meet the Department of Labor standards as a default investment option.

3. The balanced fund is available to be used as the 457 deferral compensation plan's default investment option. Department of Labor regulations indicate that if a balanced fund is used as the default investment option, it must take into account the characteristics of the group. There is some discussion in the industry as to whether a balanced account could potentially take the characteristics of the group into account. Most of the plans are moving into Target Date Funds as their Qualified Default Investment Alternative.
4. The cost of a Managed Account and/or Target Date Fund is substantially higher than the administrative costs of the balanced fund. Managed accounts seem to be the most expensive.
5. Managed accounts would not benefit participants who are not active in monitoring their investments. The default option should be the best for all types of participants, those who actively manage their investments and those who don't. Target Date fund seems to be the best option for a default.
6. A managed account service can create an allocation based on four very generic and basic pieces of information:
 1. Their DOB
 2. Their income
 3. Their age
 4. Their state of residency
7. Information would automatically be sent out to the participant to keep them updated on their investments, where they are and what they need to be doing. Participants would also receive an annual report card which says: "this is where you are, this is the goal, and the goal is not being met, and tools you can use to meet that goal".
8. Target date funds do not send out specific statements. Participants would see that they are invested in a fund such as the 20/50 fund and the 20/50 fund rate of return would be shown on the 'standard' quarterly statement. Target funds can't help participants with savings rates or other specific issues. Target date funds would be good to have for an option for participants, but maybe not as a default option.

Audience Comments:

Terry: At this time there are no 457 participants defaulting into the stable value as the participant needs to make a choice when they become a participant. The inertia is that the people in the Stable Value fund tend to stay there. Providing an option for a managed account and getting that information out and having an outside source directing them to appropriate funds would be beneficial to the participants in 457. If Target Date funds are put out there as a default they wouldn't make any difference to the participants as they already have the stable value fund as their default, it will not be beneficial to those people at all. *Kathy:* Using a re-enrollment process

everyone would have the option to re-enroll. Participants are mapped to a similar fund when a fund is discontinued through EIAC. The 457 plan was established long before the 401(a) plan became available and fell under different criteria regarding investment options; therefore they can not use the same options for both plans.

Compliance with the Pension Protection Act is necessary therefore 457 must have a default option.

Jim Penner put forth a motion to use the Balanced Fund as the Default Option.

Tom Bilideau seconded the motion

The motion passed.

Possible agenda items for the next meeting

1. Look at the fund structure
2. Cost analysis
3. Auto enrollment

Wilshire Quarterly reports will be discussed at a future date, possible conference call with Wilshire at that time.

Pre-set meetings were discussed and it was decided that the way Kathy sends out tentative dates through email is working and should be left alone.

Tom Schnieder motions to close the meeting.

Kathy Samson closed the meeting.